

De minimis safe harbor exception for tax-exempt interest expense for financial institutions

Under current law, financial institutions are not allowed to take a deduction for the portion of their interest expense that is allocable to such institution's investments in tax-exempt municipal bonds. In determining the portion of interest expense that is allocable to investments in tax-exempt municipal bonds, the bill would exclude investments in tax-exempt municipal bonds issued during 2009 and 2010 to the extent that these investments constitute less than two percent (2%) of the average adjusted bases of all the assets of the financial institution. (from [Guide to Tax Credit and Tax Exempt Bond Programs](#))

How to Apply: Please check www.irs.gov for more information on how to take advantage of this program.

Modification of small issuer exception to tax-exempt interest expense allocation rules for financial institutions

As described above, financial institutions are not allowed to take a deduction for the portion of their interest expense that is allocable to such institution's investments in tax-exempt municipal bonds. For purposes of this interest disallowance rule, bonds that are issued by a "qualified small issuers" are not taken into account as investments in tax-exempt municipal bonds. Under current law, a "qualified small issuer" is defined as any issuer that reasonably anticipates that

the amount of its tax-exempt obligations (other than certain private activity bonds) will not exceed \$10,000,000. The bill would increase this dollar threshold to \$30,000,000 when determining whether a tax-exempt obligation issued in 2009 and 2010 qualifies for this small issuer exception. The small issuer exception would also apply to an issue if all of the ultimate borrowers in such issue would separately qualify for the exception. For these purposes, the issuer of a qualified 501(c)(3) bond shall be deemed to be the ultimate borrower on whose behalf a bond was issued. (from [Guide to Tax Credit and Tax Exempt Bond Programs](#))

How to Apply: Please check www.treasury.gov/recovery for more information as they implement this program.

Eliminate costs imposed on State and local governments by the Alternative Minimum Tax

The alternative minimum tax (AMT) can increase the costs of issuing tax-exempt private activity bonds imposed on State and local governments. Under current law, interest on tax-exempt private activity bonds is generally subject to the AMT. This limits the marketability of these bonds and, therefore, forces State and local governments to issue these bonds at higher interest rates. Last year, Congress excluded one category of private activity bonds (i.e., tax-exempt housing bonds) from the AMT. The bill would exclude the remaining categories of private activity bonds from the AMT if the bond is issued in 2009 or 2010. The bill also allows AMT relief for current refunding of private activity bonds issued after 2003 and refunded during 2009 and 2010. (from [Guide to Tax Credit and Tax Exempt Bond Programs](#))

How to Apply: Please check www.irs.gov for more information on how to take advantage of this program.

Delay Application of Withholding Requirement on Certain Governmental Payments for Goods and Services

For payments made after December 31, 2010, the Code requires withholding at a three percent rate on certain payments to persons providing property or services made by Federal, State, and local governments. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services. Numerous government entities and small businesses have raised concerns about the application of this provision. The provision would delay for one year (through December 31, 2011) the application of the three percent withholding requirement on government payments for goods and services in order to provide time for the Treasury Department to study the impact of this provision on government entities and other taxpayers. (from [Full Summary of Provisions from the Senate Finance and House Ways & Means Committees](#))

How to Apply: This provision is effective on the date of enactment.

Qualified School Construction Bonds

The bill creates a new category of tax credit bonds for the construction, rehabilitation, or repair of public school facilities or for the acquisition of land on which a public school facility will be constructed. There is a national limitation on the amount of qualified school construction bonds that may be issued by State and local governments of \$22 billion (\$11 billion allocated initially in 2009 and the remainder allocated in 2010). There is a national limitation on the amount of qualified school construction bonds that may be issued by Indian tribal governments of \$400 million (\$200 million allocated initially in 2009 and the remainder allocated in 2010). Allocation amounts will be announced by the Department of Treasury (from [Guide to Tax Credit and Tax Exempt Bond Programs](#)).

How to Apply: The taxpayer holding qualified school construction bonds on a credit allowance date is entitled to a tax credit. The amount of the tax credit is determined by multiplying the bond's credit rate by the face amount on the holder's bond. The tax credit will be received when taxes are filed with the IRS. Visit www.irs.gov .

Extension and Increase in Authorization for Qualified Zone Academy Bonds (QZABs)

The bill would allow an additional \$1.4 billion of QZAB issuing authority to State and local governments in 2009 and 2010, which can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone

academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates. QZABs are a form of tax credit bonds which offer the holder a Federal tax credit instead of interest (from [Guide to Tax Credit and Tax Exempt Bond Programs](#)).

How to Apply: The taxpayer holding qualified school construction bonds on a credit allowance date is entitled to a tax credit. The amount of the tax credit is determined by multiplying the bond's credit rate by the face amount on the holder's bond. The tax credit will be received when taxes are filed with the IRS. Visit <http://www.irs.gov/publications/p954/ar02.html#d0e3636>.

Tax Credit Bond Option for State and Local Governments (“Build America Bonds”)

The Federal government provides significant financial support to State and local governments through the federal tax exemption for interest on municipal bonds. Both tax credit bonds and tax-exempt bonds provide a subsidy to municipalities by reducing the cash interest payments that a State or local government must make on its debt.

Tax credit bonds differ from tax exempt bonds in two principal ways: (1) interest paid on tax

credit bonds is taxable; and (2) a portion of the interest paid on tax credit bonds takes the form of a Federal tax credit. The Federal tax credit offsets a portion of the cash interest payment that the State or local government would otherwise need to make on the borrowing. For 2009 and 2010, this proposal provides State and local governments with the option of issuing a tax credit bond instead of a tax-exempt governmental obligation bond. Because the market for tax credits is currently small given current economic conditions, the bill would allow the State or local government to elect to receive a direct payment from the Federal government equal to the subsidy that would have otherwise been delivered through the Federal tax credit for bonds (from [Guide to Tax Credit and Tax Exempt Bond Programs](#))

How to Apply: Please check www.treasury.gov/recovery for more information as they implement this program.